

Multilateral Surveillance & Trade and Research & Statistics Departments, West African Monetary Institute (WAMI)

**Article**

## An assessment of the status of macroeconomic convergence in the West African Monetary Zone (2015 and beyond)

West African Journal of Monetary and Economic Integration

**Provided in Cooperation with:**

West African Monetary Institute (WAMI), Accra

*Suggested Citation:* Multilateral Surveillance & Trade and Research & Statistics Departments, West African Monetary Institute (WAMI) (2020) : An assessment of the status of macroeconomic convergence in the West African Monetary Zone (2015 and beyond), West African Journal of Monetary and Economic Integration, ISSN 0855-594X, West African Monetary Institute (WAMI), Accra, Vol. 20, Iss. 1b, pp. 77-105

This Version is available at:

<https://hdl.handle.net/10419/264263>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# AN ASSESSMENT OF THE STATUS OF MACROECONOMIC CONVERGENCE IN THE WEST AFRICAN MONETARY ZONE (2015 AND BEYOND)

*Multilateral Surveillance & Trade and Research & Statistics Departments<sup>1</sup>*

## **Abstract**

---

*Member States of the West African Monetary Zone (WAMZ) have made considerable efforts to meet the ECOWAS macroeconomic convergence criteria on a bumpy road to regional integration in West Africa. However, the launch of the single monetary zone in the WAMZ was postponed several times owing to difficulties in complying with the convergence benchmarks on a sustained basis. This study assesses the status of macroeconomic convergence of WAMZ countries in readiness for the launching of the ECOWAS Single Currency Programme 2020. Available data showed that, no WAMZ Member State complied with all the primary criteria on a sustained basis during 2015 – 2019 as required by the Macroeconomic Convergence and Stability Pact, posing threats to the actualisation of the ECOWAS Single Currency Programme 2020. The study recommended among others the need for WAMZ countries to develop national convergence programmes on the prescribed convergence criteria and amend their Public Financial Management Acts to enable them set limits for budget deficits in line with the convergence thresholds.*

---

---

<sup>1</sup> West African Monetary Institute (WAMI).

## 1.0 INTRODUCTION

Regional economic integration has considerable potential not only for accelerating robust and equitable economic growth and reducing poverty, but also for reducing conflict and enhancing trade liberalisation. Deeper regional integration expands markets, helps in maximising the efficiency of resource allocation and boost productivity and investment opportunities – all of which helps in narrowing development gaps between member countries (Egbuna *et al*, 2018). Nearly all countries across the world have been engaged in one form of integration or the other given the huge benefits associated with it. African countries has a long history of participation in regional integration arrangements, culminating in the formation of more regional organisations in the continent than in any other continent. Regional economic integration was boosted further in Africa with the establishment of the African Economic Community (AEC) in 1991, which committed the continent's long path to integration.

The Economic Community of West African States (ECOWAS) was established by a Treaty signed on May 28, 1975 in Lagos, Nigeria, by the Authority of Heads of State and Government of fifteen West African countries<sup>2</sup>. The Treaty entered into force on June 10, 1975, after ratification by seven Member States. The aim of ECOWAS, as contained in Article 2 of the Treaty is “to promote co-operation and development in all fields of economic activity, particularly in the fields of industry, transportation, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial sectors and in all social and cultural matters for the purpose of raising the standards of living of its people, increasing and maintaining economic stability, fostering closer relations among Member States and contributing to the progress and development of the African Continent”. Article 2 of the ECOWAS Revised Treaty of July 1993 stated that ECOWAS is called upon to become “ultimately the sole Economic Community in the Region for the purpose of economic integration and the realization of the objectives of the AEC”. In an efforts to achieve the goals of a monetary union and single currency, the Community adopted the ECOWAS Monetary Cooperation Programme (EMCP) in 1987, culminating in the development of macroeconomic convergence criteria to be fulfilled by all member countries prior to the formal take-off of the Union.

To fast-track the EMCP, a two-track approach to monetary integration was adopted by the ECOWAS Authority. This led to the establishment of the West African Monetary Zone (WAMZ) by the Authority of Heads of State and Government of five West African Member States (The Gambia, Ghana, Guinea, Nigeria and Sierra Leone) in December 2000, with the objective of establishing a common central bank and the introduction of a single currency. After a decade of being on observer status, Liberia became a member of the WAMZ in February 2010. The six member countries were required to satisfy the ECOWAS macroeconomic convergence criteria prior to the formal launching of the WAMZ monetary Zone. The West African Monetary Institute (WAMI), which was also established by the WAMZ Authority, commenced operation in March 2001. It was primarily mandated to undertake technical preparations for the launch of a monetary union for the WAMZ and the establishment of a West African Central Bank (WACB).

The WAMZ monetary union was initially scheduled to commence in January 2003. Despite efforts by the Member States to meet the benchmarks required for the commencement of the monetary union, the launch of the monetary union was postponed to July 1, 2005, due to the lack of macroeconomic and structural convergence. Following the postponement of the launch date, member countries made considerable effort to improve upon their macroeconomic performance.

---

<sup>2</sup> Benin, Burkina-Faso, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra-Leone and Togo. Cape Verde joined in 1977, while Mauritania withdrew from the Community in December 2000.

In spite of the gains made by Member States, the level of macroeconomic convergence was not sufficient for the launch of the WAMZ monetary union. The Authority, therefore, postponed the launch date to December 1, 2009 and endorsed an expanded work programme and Action Plan under the Banjul Declaration of May 2005. Following the slow progress towards the achievement of macroeconomic convergence and in the wake of the global financial crisis, the Authority once again postponed the launch of the monetary union to January 1, 2015, and adopted the Abuja Action Plan (AAP) (2009) to enable macroeconomic convergence and realization of qualitative benchmarks. The launch was further extended to 2020 on account of slippages on the convergence criteria by Member States.

As the current global economic challenges widening fiscal deficit and debt build-up are threatening the targets for achieving macroeconomic convergence and realising the ECOWAS Single Currency Programme in 2020, the West African Monetary Institute (WAMI) prepares this study to appraise the convergence status in WAMZ Member States. The broad objective of this study, therefore, is to assess the status and projections for macroeconomic convergence in the Member States of the WAMZ, towards the formal launch of the ECOWAS Single Currency Programme 2020. Specifically, the paper seeks to:

- i. Assess the readiness of WAMZ Member States to accede to a monetary union;
- ii. Highlight policy challenges in achieving and sustaining macroeconomic convergence by each Member State; and
- iii. Propose actionable recommendations for each Member State towards the achievement of the prescribed convergence criteria in the medium to long term (2020-2023).

This paper is divided into five Sections. Following this introduction, section 2 covers the ECOWAS Monetary Cooperation Programme (EMCP) while Section 3 dwells on the status of macroeconomic convergence and medium-term projections. Section 4 examines the readiness of WAMZ Member States for a monetary union and section 5 concludes.

## **2.0 ECOWAS MONETARY COOPERATION PROGRAMME**

The ECOWAS Monetary Cooperation Programme (EMCP) was established by Decision A/DEC.2/7/87, adopted in July 1987 in Abuja, Nigeria, during the Tenth (10<sup>th</sup>) Session of the Conference of Heads of State and Government. The objectives of the EMCP were to introduce a single currency in ECOWAS, and adopt appropriate and harmonised policy frameworks to attain macroeconomic convergence under a unified management system. The EMCP serves as the blueprint towards the introduction of a single currency in West Africa. The programme contained the roadmap and policy framework, and prescribed the benchmarks for achieving macroeconomic convergence as well as harmonization of policies among member-countries, prior to the launch of the single currency. To achieve the objectives outlined in the EMCP, some prescribed benchmarks were set, with which member countries were required to comply, in order to address certain macroeconomic imbalances in their domestic economy. Member countries were also required to harmonize their domestic policies and establish strong institutions, which are expected to form the pillar of the integration process.

The objectives of EMCP were to be executed in three phases. The short-term policy measures are intended to strengthen the existing payment mechanism of the West Africa Clearing House (WACH) through the settlement of outstanding payment arrears in the clearing mechanism, introducing new

payment instruments such as traveller's cheques, introducing a credit guarantee fund facility to support the clearing mechanism and increase intra-regional trade and payments of transactions through greater use of national currencies. In the medium term, the EMCP seeks to achieve limited regional convertibility of national currencies through the removal of existing restrictions on their usage. In the long term, however, the ultimate goal of the EMCP is to establish a single ECOWAS monetary area involving the use of a common convertible currency, the establishment of a common central bank, the pooling of foreign exchange reserves and the negotiation of an external convertibility guarantee with an appropriate international agency.

To facilitate these objectives, Member States were to embark on an economic policy reform programme to achieve macroeconomic convergence. The policy reform programme was to ensure the realignment of exchange rates and the adoption of a market-based exchange rate policy, removal of exchange control regimes, and minimise fiscal deficits and their financing through the rationalisation of government expenditure and tax reforms. Member States are therefore required to satisfy four primary and six secondary macroeconomic convergence criteria as follows:

Primary Criteria:

- Inflation Rate  $\leq$  5 percent.
- Budget Deficit/GDP Ratio  $\leq$  4 percent
- Central Bank Financing of Budget Deficit/Previous Year's Tax Revenue  $\leq$  10 percent.
- Gross External Reserves  $\geq$  6 months of imports cover

Secondary Criteria:

- Domestic Arrears (prohibition of accumulation of new arrears and liquidation of existing arrears).
- Tax Revenue/GDP Ratio  $\geq$  20 percent.
- Wage Bill/Tax Revenue  $\leq$  30 percent.
- Public Investment/Tax Revenue  $\geq$  20 percent.
- Positive Real Interest Rates.
- Real Exchange Rate Stability  $\pm$ 5 percent.

The ECOWAS Authority, at its 41st Ordinary Session in 2012, adopted the Macroeconomic Convergence and Stability Pact between the Member States. The pact was designed to be implemented in two stages, comprising the Convergence phase (2012-2016) when Member States were required to put in place macroeconomic policies aimed at achieving the convergence criteria particularly the primary criteria, and Stability and Consolidation phase (2017 and beyond) when Member States were required to strengthen their achievements and implement macroeconomic policies aimed at achieving healthy and sustainable growth. The Pact also requires each Member State to develop a national convergence programme in conformity with regional guidelines aimed at achieving the medium-term convergence objectives of ECOWAS.

The Macroeconomic Convergence and Stability Pact was amended in December 2015 and the following key amendments were adopted – the Convergence phase was extended to December 31, 2019; the Stability and Consolidation phase extended to January 1, 2020 and the number of convergence criteria was reduced to six, comprising four primary and two secondary criteria. The convergence deadline was set at December 31, 2019, by which date all Member States were to comply with all the primary criteria over the preceding three years (2017 – 2019). The revised criteria are as follows:

Primary Criteria:

- Ratio of budget deficit (including grants and on commitment basis) to GDP of less than or equal to 3 percent;
- Average annual inflation of less than 10 percent with a long-term goal of less than or equal to 5 percent by 2019;
- Central bank financing of budget deficit of less than or equal to 10 percent of previous year's tax revenue; and
- Gross external reserves – higher or equal to three (3) months of imports.

Secondary Criteria:

- Ratio of total public debt to GDP of less than or equal to 70 percent; and
- Nominal exchange rate variation – stable ( $\pm 10$  percent).

The EMCP could not achieve its mandate within the stipulated time frame, due mainly to weak macroeconomic outcomes and the non-ratification and implementation of relevant legal instruments. Its short-term objectives have not been fully achieved owing to the failure to clear the arrears in the clearing house mechanism and introduce new payment instruments as well as the problems with the ECOWAS traveller's cheques and the inability of members to remove non-tariff barriers to intraregional trade. The medium to long-term objectives have also not been fully attained due to the inability of member countries to satisfy the macroeconomic convergence criteria on a sustained basis, resulting in several postponement of the launch date of the WAMZ monetary zone. The next section assesses the performance of member countries in satisfying the convergence criteria.

### 3.0 STATUS OF CONVERGENCE AND MEDIUM-TERM PROJECTIONS (2020–2023)

Member countries of the WAMZ have made considerable efforts aimed at meeting the macroeconomic convergence criteria since the establishment of the Zone in 2000. However, their efforts have been hampered by several challenges including commodity price shocks, the global financial crisis, Ebola Virus Disease (EVD), Coronavirus disease pandemic and a host of other domestic shocks. This section appraise the performance of WAMZ member countries in meeting the convergence criteria in the past five years.

#### THE GAMBIA

##### Primary Criteria

##### *Inflation*

End-period inflation has been relatively stable and remained within the convergence threshold during the period 2015 – 2019 explained by relative stability of the local currency, favourable external environment and prudent monetary policy stance of the Central Bank of The Gambia (CBG). Inflationary pressures increased by 1.2 percentage points to 7.9 percent in 2016 compared to 2015, even though it moderated to 6.9 percent the following year. The Gambia recorded 7.7 percent inflation rate in 2019, and the rate is expected to moderate continuously to 5.8 percent in 2023. To maintain price stability, there is need to further strengthen foreign exchange buffers by preserving the flexible exchange rate regime and limiting interventions in foreign exchange market to support the domestic currency.

On the supply-side, efforts should be made to increase investments in irrigation and agricultural mechanization to ease food supply rigidities and minimise the risk of food inflation.

### ***Fiscal Deficit***

The country's performance on the fiscal criterion is generally unsatisfactory, mainly attributable to excessive expenditure and relatively lower revenue inflows. The fiscal deficit as a ratio of GDP increased to 6.4 percent in 2016, from 4.3 percent in 2015, but moderated to 3.4 percent in 2019. The recent COVID-19 pandemic would exert pressure on health and related expenditures. The unexpected increase in health spending to contain the virus, and revenue losses associated with decline in economic activities, would worsen fiscal deficit further. Looking forward, the authorities should strengthen reforms aimed at enhancing domestic revenue mobilization and further widening the tax base to include informal sector and stronger enforcement actions by the Gambia Revenue Authority (GRA) to increase compliance. On the expenditure side, government vehicle policy, travel restrictions and embassy rationalization should be implemented.

### ***Central Bank Financing***

Central bank financing of fiscal deficit has generally exceeded the prescribed benchmark during the review period, with the exception of 2018. In the medium-term, the country is expected to adhere to the criterion, as the projected economic recovery envisage improvements in domestic revenue mobilization and expenditure rationalization. However, the risk to the outlook is unexpected health spending to contain the coronavirus pandemic while revenue losses could lead to increase central bank financing of fiscal deficit.

### ***Gross External Reserves***

The Gambia mostly complied with this criterion during 2017 – 2019 underpinned by prudent reserves management and foreign exchange inflows from tourism. However, the country couldn't meet the benchmark of a minimum of 3 months of imports during 2015 – 2016. To maintain compliance with this criterion, the Central Bank of The Gambia (CBG) should continue to implement prudent monetary policy and build reserves.

**Table 1: The Gambia – Status of Primary Convergence (2015 – 2023)**

Primary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Inflation rate (end-period)	<10%	6.7	7.9	6.9	6.4	7.7	7.6	7.2	6.8	5.8
Fiscal deficit, on commitment basis (% of GDP)	≤3%	4.3	6.4	5.2	6.0	3.4	4.8	4.2	3.8	3.6
Central Bank financing of fiscal deficit (% of previous year's tax revenue)	≤10%	41.5	33.1	-24.5	6.9	-13.1	-8.3	-6.5	-5.8	-9.9
Gross external reserves (in Months of imports)	≥ 3 Months	2.5	2.4	3.2	3.1	4.3	3.6	3.9	4.8	5.1
<b>Number of criteria satisfied</b>		1	1	3	3	3	3	3	3	3

Sources: WAMI. \* Gambian Authorities/ Staff projections

### **Secondary Criteria**

#### ***Public Debt-to-GDP Ratio***

The criterion on the public debt-to-GDP ratio of at most 70.0 percent was not attained during the period 2015 – 2019. The stock of public debt rose to 82.4 percent of GDP in 2018, from 71.2 percent of GDP recorded in 2015. Non-compliance with this criterion could be attributed to the government

borrowing from the domestic market to finance the deficit as well as to liquidate the external liabilities of some State Owned Enterprises (SOEs). In 2020, the Government has requested from its external creditors for debt restructuring to defer, for a period of 5 years, both interest and principal payments on loans owed by Government, with the view to create the necessary fiscal space. However, the Covid-19 pandemic could end this negotiation process on the side of creditors, as they too grapple with the economic and social implications of Covid-19. Premise on this development, public debt-to-GDP would decline to 75.4 percent by end of 2023, making the criterion unattainable in the medium term.

For the country to meet the criterion on the public debt-to-GDP, the authorities should remain committed to fiscal consolidation in the medium-term to ensure debt sustainability by further strengthening tax administration and public financial management. This is envisaged to progressively reduce fiscal deficit while increasing primary surplus to ultimately anchor debt stock to sustainable level.

### ***Exchange Rate Variation***

With the exception of 2015, when the exchange rate appreciated by 13.9 percent to overshoot the exchange rate variation criterion of  $\pm 10.0$  percent, The Gambia consistently complied with this criterion. Compliance with this criterion was due to maintenance of flexible exchange rate regime, implementation of prudent monetary policies, and inflows of tourism and private remittances as well as budget support from development partners.

**Table 2:** *The Gambia – Status of Secondary Convergence (2015 – 2023\*)*

Secondary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Public debt to GDP ratio	$\leq 70\%$	71.2	76.8	79.1	82.4	80.9	80.1	81.5	77.4	75.4
Exchange rate variation	$\pm 10\%$	13.9	-9.7	-8.0	-3.2	-3.2	-3.4	-3.4	-2.3	-0.5
<b>Number of criteria satisfied</b>		0	1	1	1	1	1	1	1	1

Sources: *Gambian Authorities and WAMI staff projections\**

Premised on the sustenance of flexible exchange rate regime complimented by prudent monetary policies, The Gambia is expected to continue meeting the exchange rate variation criterion in the near-term. However, the domestic currency could be pressured due to the effect of the Covid-19 pandemic on tourism and private remittances inflow.

Overall, The Gambia's performance on the primary convergence criteria has improved to three of the four primary convergence criteria during 2018 – 2019, from satisfying one convergence criteria (2015 – 2016) due to improved public financial management, normalisation of monetary policy and supportive external environment. Over the period, single-digit inflation criterion was consistently achieved, performance in central bank financing of fiscal deficit and gross external reserves (months of imports) improved, whilst fiscal deficit criterion was not satisfied.

In the medium-term, a gradual recovery is expected on the heels of Covid-19 pandemic effects on the domestic economy, to be driven by rebound in tourism, trade and construction. However, in the medium-term, the country's performance on the primary convergence scale is expected to be maintained at three (single-digit inflation, central bank financing of the fiscal deficit and reserves in months of imports cover). Therefore, the following recommendations are suggested for consideration by the authorities:



- i. the authorities should remain committed to fiscal consolidation in the medium-term to ensure debt sustainability;
- ii. strengthening of tax administration and public financial management is also needed to boost revenue mobilisation, while implementing expenditure rationalization measures to improve compliance with fiscal deficit criterion;
- iii. develop a local currency debt market with diversified investor base to provide additional avenues for government financing;
- iv. monetary and fiscal policy coordination should be strengthened by establishing Liquidity Assessment Committee to monitor developments in the financial sector and ensure adequate liquidity in the financial system;
- v. be steadfast with the aggressive measures to contain the spread of Covid-19, and lessen its impact on the socioeconomic development of the country. Such measures include the temporary ban of export of essential food items;
- vi. the Central Bank of The Gambia (CBG) should continue to take appropriate policy measures to mitigate the impact of the pandemic on the financial sector; and
- vii. the authorities are encouraged to seek additional grant financing for emergency spending from the international multilateral organizations such as the World Bank, African Development Bank and other development partners, to safeguard debt sustainability.

## GHANA

### Primary Criteria

#### *Inflation*

Ghana's inflation surpassed the benchmark during 2015 – 2017, but reverted to single digit in 2018 and 2019. The country is on a disinflationary path, underpinned by improved monetary and fiscal coordination over the past five years. The decline in inflation is also attributable to the favourable seasonal effects on food production as well as base drift effects<sup>3</sup>. Additionally, the lagged effects of the relatively tight monetary policy stance of Bank of Ghana (BoG), the relative stability in the domestic currency and the fiscal consolidation efforts by Government contributed to the disinflationary process during the period. Inflation is projected to continue on its downward trend and remain anchored within the target band of 8.0 ( $\pm 2.0$ ) percent in the medium term.

However, with the outbreak of COVID-19 disease, inflation may be challenged due to supply rigidities. Inflation has jumped to 11.3 percent in May 2020, after stabilising at 7.8 percent in the first three months of 2020. In April 2020, the inflation rate stood at 10.6 percent. The sudden increase in inflation during the second quarter was largely on account of increased demand due to panic purchases of food and non-alcoholic beverages, which was compounded by constrained supply. This was, however, moderated by the modest growth in non-food group on account of relative stability in exchange rate and lower than average oil prices that translated into lower ex-pump fuel prices. Going forward, projections by the BoG suggest that inflation was likely to return to the target band of 8.0 ( $\pm 2.0$ ) percent by end-December 2020<sup>4</sup>.

<sup>3</sup> In 2019, the CPI basket was reviewed and rebased to 2018.

<sup>4</sup> Bank of Ghana Monetary Policy Report, Monetary and Financial Developments, Vol. 4 No. 3/2020.

### *Fiscal Deficit*

The country did not achieve the fiscal deficit criterion during the entire period under review. However, it is worth noting that significant effort was made towards narrowing the budget deficit from a high of 8.1 percent in 2016 to 3.9 percent and 4.8 percent in 2018 and 2019, respectively. The improvement was mainly on account of Ghana's Extended Credit Facility (ECF) programme with the IMF, which expired in 2019.

In a bid to maintain fiscal discipline, the country enacted a Fiscal Responsibility Act, which placed a ceiling of 5.0 percent of GDP on the fiscal deficit. The fiscal criterion remained the most challenging for Ghana to attain during the period 2015 to 2019, attributable to the underperformance of revenue, underpinned by the slack in tax receipts, crystallisation of energy sector related legacy debt; and unanticipated expenditure emanating from emerging security threats along the country's borders.

In order to curb expenditure and boost domestic revenue mobilisation, the country authorities are encouraged to intensify efforts aimed at:

- i. improving the efficiency of tax collection, automating tax collection units and processes, enforcing tax-payer compliance and broadening the tax base;
- ii. assessing and reviewing the impact of the downward adjustment of benchmark import values on customs collections while intensifying sensitization on the paperless port clearance system to engender patronage of the ports;
- iii. deregulating the energy sector to improve on efficiency and the resolution of the energy sector related legacy debt through speedy renegotiation of the power purchase agreements with the Independent Power Producers (IPPs); and
- iv. foster bilateral military cooperation with neighbouring countries to stem the extra budgetary implications associated with emerging security risks in the sub-region.

In the medium term, with the fiscal deficit programmed at  $\leq 5.0$  percent of GDP<sup>5</sup>, by the Ministry of Finance (MoF), Ghana is expected to maintain a narrow budget deficit. However, the country might not attain the fiscal deficit criterion given Government's strategy to accelerate growth vis-à-vis the convergence threshold of  $\leq 3.0$  percent, and the outbreak of Covid-19 pandemic.

Recent developments, in the first five months of 2020, indicate that Government would not be able to maintain a narrow budget deficit of 3.0 percent or less in the 2020 fiscal year. Provisional estimates indicate a revenue shortfall of about GH¢ 3.5 billion and an expenditure overhang of GH¢ 2.4 billion during the first quarter of 2020<sup>6</sup>. The overall fiscal balance recorded for Q1:2020 was a deficit of 3.3 percent of GDP compared to a target of 1.8 percent of GDP. This is mainly due to shortfalls in both tax and non-tax revenue and increases in recurrent expenditure i.e. wages and salaries and goods and services.

<sup>5</sup> *Government of Ghana, 2020 Budget Statement and Economic Policy*, p. 79.

<sup>6</sup> Source: <https://www.mofep.gov.gh/fiscal-data/2020-jan-mar>

### Central Bank Financing

The country satisfied this criterion consistently during the review period (2015 – 2019) with zero Central Bank financing of the fiscal deficit. It is expected that this criterion would be achieved in subsequent years premised on Government's commitment to fiscal discipline and adherence to the limit on deficit financing of not more than 5.0 percent of previous year's tax revenue. This, and the sustained policy coordination between the Monetary and Fiscal Authorities, should ensure that the Central Bank financing of the fiscal deficit remains at zero percent in the medium term.

However, at its May, 2020 Monetary Policy Committee Meeting, the BoG triggered section 30 of the Bank of Ghana Act, 2002 (Act 612) as amended, which permits the Bank to increase the limit of its purchases of government securities in the event of any emergency to help finance the residual financing gap of the government budget. Subsequently, the Bank purchased a Government of Ghana Covid-19 relief bond with a face value of GH¢5.5 billion at the Monetary Policy Rate (MPR) with a 10-year tenor and a moratorium of two (2) years (principal and interest), under the Bank's Asset Purchase Programme. Additionally, BoG indicated its readiness to continue with its Asset Purchase Programme by up to GH¢10.0 billion in line with the current estimates of the financing gap for the 2020 budget as a result of the COVID-19 pandemic<sup>7</sup>. This might negatively impact the country attaining the Central Bank financing criterion in the 2020 fiscal year. This development is, however, expected to normalise from 2021 onwards.

### Gross International Reserves

Ghana sustained its compliance with the Gross International Reserves (GIR) criterion as it maintained a GIR position in excess of the required minimum to cover at least three months of import in the review period. In the medium term, the country expects to build and maintain at least 3.5 months of imports in reserves, based on the projected increase in oil exports from the newly discovered oilfields. However, this outlook is threatened by the sharp decline in international oil prices because of the recent oil price war between Saudi Arabia and Russia. Additionally, the emergence of the Covid-19 pandemic has weakened global energy demand, disrupted the global supply chain and undermined export prospects.

The pandemic notwithstanding, Ghana has sustained its GIR build-up during the first five months of 2020 to US\$10.3 billion, representing 4.8 months of imports of goods and services, from US\$8.4 billion (4.0 months of import of goods and services) recorded at end-December 2019. The reserve build-up was on account of inflows from the February 2020 Eurobond issuance 2020 and the IMF US\$1.0 billion Covid-19 Rapid Credit Facility.

**Table 3:** Ghana: Status of Primary Convergence (2015-2023)

Primary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Inflation rate (end-period)	<10%	17.7	15.4	11.8	9.4	7.9	9.9	8.5	7.8	6.8
Fiscal deficit, on commitment basis (% of GDP)	≤3%	4.9	6.1	4.8	3.9	4.8	6.4	≤5.0	≤5.0	≤5.0
Central Bank financing of fiscal deficit (% of previous year's tax revenue)	≤10%	0.0	10.0	0.0	0.0	0.0	≤23.5	0.0	0.0	0.0
Gross external reserves (in Months of imports)	≥ 3 Months	3.5	3.5	4.3	3.6	4.0	≥3.5	≥3.5	≥3.5	≥3.5
<b>Number of criteria satisfied</b>		2	1	2	3	3	3	3	3	3

Sources: WAMI. \* Ghanaian Authorities/ IMF / Staff projections

<sup>7</sup> Source: MPC-Press-Release-15th-May-2020-2

## Secondary Criteria

### *Public Debt-to-GDP Ratio*

The country missed the criterion on public debt/GDP with a ratio of 70.0 percent, as against the 70.8 percent and 73.3 percent, respectively recorded in 2015 and 2016, mainly on account of increased domestic borrowings. With the debt restructuring and the stability of the cedi, the country met the criterion on public-debt-to-GDP ratio from 2017 to 2019.

The outlook for 2020 indicates that the public debt-to-GDP ratio is expected to average 51.8 percent on account of debt restructuring efforts including legislating a ceiling on external borrowing.

### *Exchange Rate Variation*

The cedi depreciated by 9.2 percent in 2016, relative to 15.7 percent in 2015, partly as a result of slowdown in foreign exchange demand pressures, due to the fall in imports while the increase in exports improved supply of foreign exchange. In addition, increased external inflows attributed to the increased patronage of medium to long term domestic bonds by non-resident investors, sustained the resilience of the domestic currency to remain within the exchange rate variation threshold.

However, the country missed the criterion in 2019 as the cedi depreciated, in nominal terms, by 12.4 percent, reflecting the impact of external developments on the domestic foreign exchange market, particularly the increased financial market volatility and normalisation of US monetary policy stance which strengthened the US dollar. The high domestic demand pressures for foreign exchange during the year by corporate entities and non-resident investors' for imports, dividends, coupon and principal repatriation also contributed to the level of depreciation recorded by the domestic currency against the US dollar during the year. In 2020, it is projected that the country will remain within the prescribed fluctuation band as the authorities continue to pursue prudent policy options barring any adverse external shocks. However, increased uncertainty on account of the Covid-19 outbreak poses a downside risk to attaining the exchange rate criterion.

**Table 4: Ghana – Status of Secondary Convergence (2015 – 2023)**

Secondary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Public debt to GDP ratio	≤70%	70.8	73.3	55.4	57.5	63.0	51.8	67.2	66.2	63.1
Exchange rate variation	±10%	15.7	9.2	4.9	8.4	12.4	3.2	±<10.0%	±<10.0%	±<10.0%
<b>Number of criteria satisfied</b>		0	1	2	2	2	2	2	2	2

Sources: WAMI. \* Ghanaian Authorities/ IMF / Staff projections

Overall, for the entire review period, Ghana sustained its performance since 2018 as it met three out of four primary convergence criteria. In 2018 and 2019, Ghana missed the fiscal deficit criterion.

In this Covid-19 era, however, downside risks to attaining the convergence criteria remain in the short term including: the upcoming December 2020 elections and its impact on government expenditure; fiscal slippage due to revenue underperformance and expenditure overhang; the risk of high debt distress due to increased borrowing; and a slowdown in both domestic and global growth on account of Covid-19. In the medium term, government's commitment to fiscal discipline, the sustained debt restructuring policy, improvement in key macroeconomic variables and government's economic growth agenda are expected to drive Ghana's performance to at least five out of the six convergence criteria.

In Ghana, the country authorities are encouraged to intensify efforts aimed at:

- i. improving the efficiency of tax collection, automating tax collection units and processes, enforcing tax-payer compliance, broadening the tax base;
- ii. ensuring fiscal discipline and avoid extra budgetary expenditure associated with election year cycles;
- iii. intensifying sensitization on the paperless port clearance system to engender patronage of the ports;
- iv. fully deregulating the energy sector to improve on efficiency and the resolution of the energy sector related legacy debt through speedy renegotiation of the power purchase agreements with the Independent Power Producers (IPPs);
- v. fostering bilateral military cooperation with neighbouring countries to stem the extra budgetary implications associated with emerging security risks and the Covid-19 outbreak in the sub-region.
- vi. sustaining the implementation of government's deliberate policy initiatives, such as planting for food and job, one district one factory (1D1F), etc. aimed at modernising agriculture and diversifying growth to increase domestic production, at a time when the emergence of Covid-19 has disrupted global supply chains;
- vii. remaining steadfast in the discharge of its oversight responsibilities in the banking sector while ensuring that financial sector regulators should deepen collaboration to avert regulatory arbitrage and spill-over of risks due to the significant interconnectedness of the various segments of the financial system; and

viii. sustaining efforts at containing the Covid-19 pandemic in Ghana.

## GUINEA

### Primary Criteria

#### *Inflation*

Guinea has generally maintained the single-digit inflation criterion throughout the period under review. The application of appropriate monetary policy instruments is responsible for maintaining relative price stability. Equally, other measures taken by the Central Bank of the Republic of Guinea (BCRG) such as the improved exchange rate management through interventions in the foreign exchange market aimed at stabilizing the Guinean franc and contain the exchange rate pass-through have proven effective.

However, inflation is expected to trend upwards beyond the benchmark in 2020 owing to the impact of the Covid-19 pandemic in the Guinean economy and the measures taken by the government to dampen the economic impact of the disease. In effect, BCRG reduced its main policy instrument, namely the policy rate, by 150 basis points in April 2020 (from 12.5 percent to 11.0 percent) and the reserves requirement ratio (from 16.0 percent to 15.0 percent) in addition to a liquidity injection program and relaxation of prudential standard ratios in favour of financial institutions. These measures were taken to ease liquidity availability for the private sector in order to boost economic recovery

through the demand side. Consequently, the Guinean Authority projected end-period inflation to reach 11.8 percent in 2020. Nevertheless, it is expected that inflation would fall below the threshold of 10.0 percent in 2021 onwards, provided that BCRG restores its monetary policy and macro prudential framework after returning to normalcy. Equally, the completion of ongoing road infrastructure projects could also ease pressure on domestic prices given that food supply's transportation remains a challenge in the country.

### ***Fiscal Deficit***

Guinea has met the fiscal deficit criteria during the review period, except during the Ebola Virus Disease (EVD) period in 2015. Fiscal anchor was set by limiting fiscal deficit to a certain threshold. In addition, the government has implemented several reforms in recent years aimed at broadening the tax base, increasing tax collection and improving fiscal performance. These reforms include, among others, the introduction of a Permanent Tax Identification Number (PTIN), the obligation of corporate entities to use the RTGS platform for all tax payments and the use of mobile money for tax collections.

However, fiscal slippages are expected in the medium to long term, on account of the impact of Covid-19 and the general elections (referendum, parliamentary and presidential) scheduled in 2020. In effect, the Guinean government project significant drop in revenue following the exemption and postponement of tax and duties payment, coupled with the rise in expenditure in line with the measures taken to mitigate the impact of Covid-19. Consequently, the government projected a fiscal deficit (including grants) beyond the convergence threshold in the period 2020 – 2023. The Guinean Authority is encouraged to continue keeping track record of fiscal discipline as observed in recent years and to maintain reforms aimed at further broadening the tax base after returning to normalcy.

### ***Central Bank Financing***

Guinea's performance on the central bank financing has been satisfactory during the period under review, except in 2015 and 2018, when the country missed the criterion. Going forward, central bank financing is expected to rise given the ongoing fiscal pressure the government faces (due to the general elections and measures taken against Covid-19). However, the country would continue to fulfil this criterion in the medium term, given the track record of limited central bank financing (5 percent of previous year's tax revenue), as stipulated in BCRG Act. The country authorities are, therefore, encouraged to comply with the provisions of the BCRG Act.

### ***Gross External Reserves***

Meeting the gross external reserves criterion has been challenging for the country. Despite efforts made by the BCRG to accumulate more reserves in recent years, the country couldn't meet the criterion during 2015 – 2018. The reason for the failure was linked to the non-repatriation of exports revenue mainly by mining companies into the Guinean domestic banking system. However, the country is expected to satisfy this criterion in the medium to long term, as BCRG continues to accumulate external reserves year after year and reforms are being implemented for the repatriation of exports revenue to the domestic banking system. Consequently, gross international reserves are expected to remain above 3.0 months of import cover over the forecast horizon, premised on making effective the repatriation of export revenue from mining activities into the domestic banking sector and continued implementation of robust exchange rate policy by BCRG to strengthen reserve management.

**Table 5: Guinea – Status of Primary Convergence (2015-2023)**

Primary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Inflation rate (end-period)	<10%	7.3	8.7	9.5	9.9	9.1	11.8	9.6	9.4	8.1
Fiscal deficit, on commitment basis (% of GDP)	≤3%	6.2	-0.4	2.3	1.2	1.0	3.4	4.9	4.7	4.5
Central Bank financing of fiscal deficit (% of previous year's tax revenue)	≤10%	24.3	1.6	3.6	11.7	1.7	5.0	5.0	5.0	5.0
Gross external reserves (in Months of imports)	≥ 3 Months	2.1	1.4	1.9	2.6	4.4	3.8	3.9	4.0	4.1
<b>Number of criteria satisfied</b>		1	3	3	2	4	2	3	3	3

Sources: WAMI. \* Guinean Authorities/ IMF /Staff projections

## Secondary Criteria

### Public debt-to-GDP Ratio

Guinea has complied with this criterion since 2015, following the country's attainment of the Highly Indebted Poor Countries (HIPC) initiative, culminating in the waiving of two-third of its external debt in 2012. Even though a marked rise in public debt is expected in 2020 and beyond, the country would continue to meet this criterion.

### Exchange Rate Variation

Guinea has met this criterion during the period 2015 – 2019, except in 2016, as the BCRG maintained its managed floating exchange rate policy through interventions in the foreign exchange market. The bank intervened in the foreign exchange market weekly to meet the domestic demands, resulting in the relative stability of the Guinean franc over the years. Going forward, BCRG should maintain its managed floating policy to sustain the stability of GNF. The country is expected to satisfy this criterion in the medium to long term as the BCRG is expected to continue implementation of exchange rate policy to strengthen reserve buffers and external stability.

**Table 6: Guinea – Status of Secondary Convergence (2015-2023)**

Secondary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Public debt to GDP ratio	≤70%	43.7	42.5	35.9	40.2	39.3	44.5	43.0	41.6	41.6
Exchange rate variation	±10%	-9.7	-13.2	2.4	-0.9	-3.4	-3.8	-4.0	-4.1	-4.5
<b>Number of criteria satisfied</b>		2	2	2	2	2	2	2	2	2

Sources: WAMI. \* Guinean Authorities/ IMF /Staff projections

Guinea satisfied all the four primary criteria in 2019. This performance was made possible through different fiscal and monetary policy reforms and implementation, in accordance with the Extended Credit Facility (ECF) programme with the IMF and other regional commitments over recent years. However, the medium-term projections indicate that the country would satisfy two criteria in 2020, and three criteria during 2021 – 2023. More precisely, the country is expected to miss the criteria on inflation and fiscal deficit in 2020, in connection with the Covid-19 outbreak coupled with the general elections, which have negatively affected the economic performance of the country. The Guinean Authority is encouraged to continue keeping track record of fiscal and monetary discipline as observed in recent years. In order to sustain the country's performance on the convergence criteria, the following recommendations are proffered for the consideration of the country authorities:

- i. ensure diversification of the Guinean economy, in order to reduce its dependence on the mining sector;
- ii. restoring the monetary and fiscal policy discipline the country has observed over recent years, as soon as normalcy returns;
- iii. establish the Monetary Policy Committee (MPC) in order to strengthen the BCRG's mandate;
- iv. continue reforms in the mining sector aiming at enhancing tax collection as well as making effective the repatriation of export revenue from mining activities to the domestic banking sector;
- v. develop more robust domestic debt market in the short to medium term, to deepen the financial market for sustainable economic development; and
- vi. strengthen monetary and fiscal policy coordination by establishing liquidity assessment committee.

## LIBERIA

### Primary Criteria

#### *Inflation*

Liberia's performance in achieving the single-digit inflation criterion was mixed. The threshold was met in 2014 and 2015, but was breached between the periods 2016 to 2019, where the country recorded double digits inflation, heightening in 2018 at 28.5 percent. Preliminary projections suggest that inflation will continue to remain in double-digits in the medium to long term (2020 – 2023) mainly due to pass-through effects of exchange rate depreciation. For the country to achieve and maintain a trajectory path of a single digit inflation, there should be strong coordination between the monetary and fiscal authorities, fiscal expenditure rationalization, reduction of tax exemptions and widening the export base of the country will help to ease pressure on the exchange rate and reduce prices of goods and services in the country.

#### *Fiscal Deficit*

Liberia has consistently complied with the fiscal deficit (including grants) criterion for the past five years (2015-2019) mainly due to adherence to fiscal rules and the implementation of fiscal consolidation measures. However, preliminary estimates show that fiscal deficit, including grants (on commitment basis) will widen to 6.0 percent and 5.6 percent of GDP in 2020 and 2021, respectively, due to the impact of Covid-19 pandemic and its lingering effects on economic activity. The decline in international trade and domestic economic activity put the fiscal operations under pressure given the unexpected health expenditure. Forecasts for the medium-term (2022-2023) shows that the country could meet fiscal deficit criterion, on account of informed implementation of the fiscal consolidation and expenditure rationalization measures.

#### *Central Bank Financing*

There was no indication of central bank financing of government fiscal operations in 2015. The country recorded central bank financing accounting for about 3.0 percent of previous year's revenue in 2016,



which was less than the 10.0 percent threshold. However, the country experienced an average of 45.8 percent of central bank financing of government fiscal deficit (as percentage of previous year's tax revenue) between the period 2017 to 2019, due to a decline in revenue collection and huge expenditure payoff of wages and salaries for civil servants. It is projected that between the period 2020 to 2023, there will be no central bank financing due to expected fiscal consolidation. In addition, the agreement between the IMF and the Government of Liberia that allows IMF staff to work alongside with the Central Bank of Liberia (CBL) to cross check all transactions between the CBL and other institutions will help to curtail CBL financing to national government.

### **Gross External Reserves**

Liberia's performance on the gross external reserves criterion on average falls below the prescribed threshold between 2015 and 2020, due to the sharp decrease in export earnings and the drawdown of the reserves to finance imports. For the country to achieve this criterion in the medium term, efforts should be strengthened to diversify the export base of the economy to improve foreign exchange inflow. In addition, agricultural and manufacturing sector activity should be scaled up into producing for domestic consumption to curtail expenditure on imports financing.

**Table 7: Liberia – Status of Primary Convergence (2015-2023)**

Primary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Inflation rate (end-period)	≤10%	8.0	12.5	13.9	28.5	20.3	19.0	16.0	24.0	33.0
Fiscal deficit, on commitment basis (% of GDP)	≤3%	-1.6	-2.3	1.7	0.3	0.9	2.8	2.2	1.4	2.7
Central Bank financing of fiscal deficit (% of previous year's tax revenue)	≤10%	0.0	3.0	61.3	43.8	32.3	0.0	0.0	0.0	0.0
Gross external reserves (in Months of imports)	≥ 3 Months	2.4	2.2	2.3	2.6	2.4	2.3	2.4	2.5	2.6
<b>Number of criteria satisfied</b>		3	2	1	1	1	2	2	2	2

Sources: WAMI. \*Liberia Authorities/ IMF /Staff projections

### **Secondary Criteria**

#### **Public Debt to GDP Ratio**

Liberia's public debt stock between 2015 and 2019, on average, recorded 32.7 percent of GDP. The debt stock to GDP in 2015 was 37.3 percent, but increased significantly to 51.1 percent in 2019. The rising debt stock resulted from multiple shocks to Liberia's economy during the period. About 63.4 percent of Liberia's public debt stock was external public and publicly guaranteed (PPG) debt, while more than 87.0 percent was due to multilateral creditors. The increase in domestic debt was attributable to government borrowing from the CBL in the form of bridge loans and advances to cover the financing gap in fiscal years 2018 and 2019, an approach that has contributed to high inflation rates. It is projected that Liberia's public debt to GDP would further increase during the periods 2020 – 2023, reaching 65.1 percent by 2023. Nevertheless, it will still fall below the 70.0 percent prescribed convergence threshold.

#### **Exchange Rate Variation**

The Liberian dollar exchange rate (end-period) depreciated by 6.8 percent to L\$88.5 in December 2015, from L\$82.5 in December 2014. The depreciation of the currency was partly due to a decline in export receipts and excessive demand for foreign exchange to finance the importation of goods and services, triggered by the resumption in business activities after the cessation of the EVD. Nevertheless, the depreciation fits within the prescribed fluctuation band of  $\pm 10$  percent, indicating that the country satisfied the convergence criterion. However, the country has continued to experience double digit depreciation in her local currency, due to drop in prices of her international major commodities (rubber, iron ore), drawdown of the United Nations Mission to Liberia (UNMIL) and the outbreak of the EVD.

It is projected that the, the country will not meet the exchange rate criterion during the period 2020-2023.

**Table 8: Liberia – Status of Secondary Convergence (2015-2023)**

Secondary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Public debt to GDP ratio	≤70%	37.3	34.7	25.8	28.8	51.1	59.5	65.6	66.6	65.1
Exchange rate variation**	±10%	-6.8	-13.7	-18.3	-20.4	-16.2	-14.5	-12.8	-12.2	-13.5
<b>Number of criteria satisfied</b>		2	1	1	1	1	1	1	1	1

Source: Country Authorities and WAMI Staff \*\*+ appreciation, -depreciation

\*IMF Projections

On the convergence front, the country's performance on meeting the primary convergence criteria has been mixed. In 2015, the country satisfied three of the four primary rationalized macroeconomic convergence criteria, namely: end period inflation, budget deficit, and central bank financing, but slipped on the gross external reserves, while in 2016, the country satisfied the fiscal deficit and central bank financing and missed the gross external reserve and single-digit inflation criteria. The country's performance remained unchanged between 2017 and 2019, as the country satisfied only one of the four primary criteria. The country satisfied the fiscal deficit criterion but missed end period inflation, central bank financing and gross external reserves criteria.

Preliminary statistics between 2020 and 2023 show that the country will start to regain its macroeconomic thrust on a gradual basis by achieving each primary convergence criteria and recuperate full macroeconomic growth by 2023. The forecast for 2020 shows the country will meet the central bank financing but will miss the end-period inflation, fiscal deficit and gross external reserves criteria, while in 2021, it will achieve two of the four primary criteria, namely: central bank financing and gross external reserve but slip on the end period inflation and fiscal deficit. In 2022, it is projected that the country will meet three of the four primary criteria as it is expected to achieve fiscal deficit, central bank financing and gross external reserves criteria, but would miss the end period inflation criterion. The country is expected to return to its full projector path by 2023, where it is expected to achieve all the four primary convergence criteria.

The realization of the full recovery of the economy in the forecast horizon would be negatively impacted by the coronavirus outbreak and its lingering effect. With the presence of Covid-19, the external sector and investment climate will greatly be affected in the months ahead. Liberia, being an import-dependent economy, the impact of COVID-19 may result in a slowdown of its economy. The authorities are urged to consider the following recommendations:

- i. diversify the economy by promoting agricultural and manufacturing output;
- ii. explore new markets for locally produced products;
- iii. improve physical infrastructure especially electricity and roads, through public private partnership arrangement;
- iv. revisit the roadmap to move to full de-dollarization in order to enhance monetary policy implementation and the effective operation of the money market;
- v. develop more robust domestic debt market by the end of the year 2020, to deepen the financial market for sustainable economic development;

- vi. strengthen monetary and fiscal policy coordination by establishing Liquidity Assessment Committee;
- vii. sustain support and social protection – especially to those with little or no social safety net, through government food aid program of providing essential goods and services to the poor;
- viii. leverage on their technical know-how from the Ebola predicament, as well as surveillance and contact tracing, to curtail the spread of Covid-19 transmission; and
- ix. direct CBL to some restrained and flexibility in structuring of borrowing terms by banks to benefit solvent borrowers in hard-hit sectors, such as services and manufacturing.

## NIGERIA

### Primary Criteria

#### *Inflation*

Nigeria was unable to satisfy the inflation criterion for the years 2016 – 2019 except year 2015 when Nigeria recorded an inflation rate of 9.6 percent. The projections for year 2020 to 2021 shows that inflation will oscillates downwards and average 11.1 percent. This is above the 10 percent threshold. This situation is attributed to supply-side constraints (import push inflation) which is responsible for the double-digit inflation rate within the period. However, following the health and economic exigencies triggered by the Covid-19 pandemic which necessitated government to take drastic fiscal and monetary measures aimed at curtailing the impact of the pandemic and curbing rising inflation on its economy, the country's inflation in the fiscal year 2022 and 2023 will decline and fall within the single digit band of less than 10 percent. This notwithstanding, government should intensify economic diversification (real sector – agriculture, industries and power), import substitution policies and infrastructure in other to stem inflationary pressures.

#### *Fiscal Deficit*

Nigeria's fiscal operations remained stable over the period, 2015 – 2019, with an annual fiscal deficit averaging 1.2 percent of GDP for the period. Fiscal deficit as a percent of GDP was moderate, and recorded 0.3 percent in 2019. Nigeria fiscal deficits in 2015 stood at 1.5 percent of GDP, then increased by 0.6 percentage point to 2.1 percent in 2016 before declining to 1.5 percent in 2017. Since 2018, the country's fiscal operation has maintained a declining trend and recorded 0.8 percent and 0.3 percent, respectively, in 2018 and 2019. Fiscal deficit is projected to remain relatively within the convergence threshold of less than or equal to 3 percent of GDP between 2020 and 2023.

#### *Central Bank Financing*

The Central bank financing of budget deficit averaged 39.3 percent of previous year's tax revenue during the period under consideration. In order to reduce central bank financing and maintain fiscal discipline, the government has passed into law the Finance Act and the Strategic Revenue Growth Initiative 2019. Following the advent of Covid-19, the Central Bank of Nigeria (CBN) injected ₦50 billion into the economy through the Covid-19-support fund to bolster the real sector and is expected to further intervene in the economy. Therefore, it is projected that financing of fiscal deficit will increase in the fiscal 2020 but for the period 2021 – 2023, it will witness a steady decline in central bank financing of fiscal deficit even though will remain above the 10.0 percent threshold.

Therefore, the government should consider implementing fiscal adjustment mechanisms aimed at increasing revenue through improved taxes (e.g. VAT). Going forward, there should be a sustained policy coordination between the fiscal and monetary authorities to ensure that the central bank financing of the fiscal deficit decreases to acceptable levels in the medium to long term. In addition, the authorities should consider the following:

- i. the fiscal authorities should implement the Finance Bill and improve budget execution; and
- ii. the government should pursue the diversification of the non-oil sector, e.g. agriculture and industries to serve as alternate source of revenue.

### **Gross External Reserves**

Gross external reserves could finance 10.0 months of import on average between 2015 and 2019 and it is expected to average 6.9 months during 2020 – 2023. The reserves recorded within the period under review was buoyed by increasing oil exports, steady diaspora remittances, improvements in portfolio and other inflows as well as proceeds from the successful Eurobond issuance. These would curtail capital flight and boost investors' confidence.

**Table 9:** Nigeria: Status of Primary Convergence (2015-2023)

Primary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Inflation rate (end-period)	<10%	9.6	18.6	15.4	11.4	11.9	11.9	10.3	9.8	9.4
Fiscal deficit, on commitment basis (% of GDP)	≤3%	-1.5	-2.1	-1.5	-0.8	-0.3	-0.4	-0.4	-0.5	-0.6
Central Bank financing of fiscal deficit (% of previous year's tax revenue)	≤10%	0.0	119.4	0.0	22.7	75.5	77.1	69.4	41.7	25.0
Gross external reserves (in Months of imports)	≥ 3 Months	5.8	8.2	12.9	11.2	6.6	6.3	6.1	6.7	6.8
<b>Number of criteria satisfied</b>		4	2	3	2	2	2	2	3	3

*Sources: WAMI and Nigeria Authorities*

### **Secondary Criteria**

#### **Public debt-to-GDP Ratio**

Nigeria's public debt stock remain sustainable at an average of 20.1 percent of GDP within the period 2015 - 2019, which was sufficiently below the international threshold of 56 percent for countries in Nigeria's peer group as well as the ECOWAS convergence threshold of less than or equal to 70 percent. The public debt-to-GDP stock is projected to remain sustainable for the period 2020 – 2023 at an average of 17.4 percent.

The overall objective of Nigeria debt management strategy between 2015 and 2019, was to ensure that Government's funding needs are met at most optimal borrowing cost, while maintaining risk at a prudent level and supporting the development of the government's securities market, were subjected to a variety of risk. This may be due to domestic and/or external shocks, as well as properly structured debt portfolio, using the debt and debt-related instruments to support Nigeria's development goals, while ensuring that Public Debt is sustainable. Given the projected contraction of global economy as a result of the outbreak of Covid-19, the fiscal authority's efforts in rolling out stimulus packages and policies aimed at increasing and diversifying the country's revenue base, such as, the passage of the Finance Act and Strategic Revenue Growth Initiative of the Federal Ministry of Finance, Budget and National Planning be sustained. The government is making frantic effort towards reducing the debt

burden, by initiating new policies and seeking external concessionary loans, which is geared at reducing total public debt in the medium- to long- term.

### **Exchange Rate Variation**

Nigeria did not meet the nominal exchange rate variability criterion of  $\pm 10$  percent fluctuations during 2015 and 2016, as the domestic currency depreciated by 16.1 percent and 54.8 percent, respectively. However, the exchange rate has been fairly stable since 2017, and the country met the criterion since then. Projections for the period 2020 – 2023 indicates that the Naira exchange rate is expected to depreciate marginally by 0.48 percent on average during the period.

**Table 10: Nigeria – Status of Secondary Convergence (2015 – 2023)**

Secondary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Public debt to GDP ratio	$\leq 70\%$	24.4	16.0	15.5	28.1	16.6	16.8	17.4	17.4	17.4
Exchange rate variation**	$\pm 10\%$	16.1	54.8	0.3	-0.1	-0.2	-0.4	-0.5	-0.5	-0.5
<b>Number of criteria satisfied</b>		1	1	2	2	2	2	2	2	2

\* Provisional; \*\* Projections. Sources: Nigerian Authorities, WAMI Staff.

Overall, Nigeria’s performance in meeting the primary convergence criteria between 2015 and 2019 was mixed. Nigeria met the fiscal deficit and external reserves criteria on a sustained basis since 2015. This trajectory is expected to be sustained between 2020 and 2023. However, Nigeria has consistently missed the central bank financing criterion since 2017. Similarly the country failed to meet the single digit inflation criterion since 2015. The country is also expected to miss the single digit inflation criterion in 2020 and 2021, but will decline to single digit in 2022 and 2023.

Going forward, the pace of economic recovery will remain slow, given the weak external environment, drop in international prices of crude oil as well as the low production of crude oil in Nigeria, insecurity resulting from the continued threat of terrorism, and negative effects of climate change were some of the events that affect the economy between in 2015 and 2019. These, in addition, to the collapsed of a three-year supply pact with Saudi Arabia, Russia and OPEC, thus, signalling a hike in output in the international oil market already overstocked with crude coupled with the emergence of the Coronavirus disease (Covid-19) pandemic and adjustments of benchmark oil price could pose threats to the prospects of the economy in the years 2020 – 2023.

In light of the foregoing, the following are recommended for the consideration of authorities to ensure sustainable compliance with the convergence criteria:

- i. monetary authorities should embark on expansionary monetary policy stance in order to re-inflate the economy and rapidly even-out the adverse effect of the Covid-19.
- ii. fiscal authorities should undertake a comprehensive fiscal adjustment programme in order to increase revenue, especially through improved tax administration;
- iii. sustained policy coordination between the fiscal and monetary authorities to ensure that the central bank financing of the fiscal deficit continually decreases and becomes zero percent in the medium to long term;
- iv. given the impact of the slump in international oil price on the economy and the deteriorating terms of trade, government should look inward for policies aimed at improving domestic revenue mobilization (tax policies);

- v. government should carry out structural reforms in the power sector, implementation of a robust anti-corruption and financial inclusion strategy as well as reducing the infrastructure deficit;
- vi. to sustain exchange rate stability, both the fiscal and monetary authorities should implement the followings in the medium- to long- term:
  - a. upholding of a stronger counter-cyclical fiscal policy stance to guard against oil price shocks; and
  - b. full harmonization of all exchange rates in the economy.

## SIERRA LEONE

### Primary Criteria

#### *Inflation*

The year-on-year inflation rate increased to 17.4 percent at end-December 2016, from 8.9 percent at end-December 2015. The upward pressure on inflation, during this period, was partly as a result of the pass-through effect of the depreciation of the Leone, supply constraints of basic consumer goods and the reduced cross-border trade with Liberia and Guinea on account of the EVD. Though inflation moderated at end-December 2017, it remained elevated at 15.3 percent, emanating mainly from the lagged effect of the liberalisation of fuel prices and the depreciation of the domestic currency. Inflation decreased further to 14.3 percent and 13.9 percent at the end of 2018 and 2019, respectively, due to government effort at fiscal consolidation and the relatively tight monetary policy stance of the Bank of Sierra Leone (BSL). Consequently, the country has been unable to meet the single digit inflation criterion since 2015.

The inflationary pressure is expected to persist in the short term but moderate over the medium term. Inflation is projected to peak at 17.5 percent in 2020, and subsequently moderate to 13.5 and 11.1 percent in 2021 and 2022, respectively. Inflation is projected at 9.8 percent, below the convergence threshold, in 2023. However, the risks to the outlook include potential slowdown in economic activity due to supply chain disruptions and decreased domestic food production emanating from lockdowns and transportation restrictions.

#### *Fiscal Deficit*

Fiscal deficit (including grants) as a percentage of GDP stood at 4.3 percent in 2015, but further increased to 7.5 percent and 8.6 percent in 2016 and 2017, respectively. The reduction in receipts following the closure of the two major iron ore mining companies, rapid resumption of government's capital projects and post-Ebola recovery programmes, high spending on goods and services and on wages and salaries, higher than projected expenditure profiles exacerbated by the delay in donor support all contributed to the high fiscal deficit in those years. However, the deficit narrowed to 5.2 percent of GDP in 2018 and significantly to 2.6 percent of GDP in 2019. The improved fiscal position was driven by fiscal consolidation efforts of the government, culminating in an increased collection of tax revenue and the adoption of expenditure rationalization measures, including, audit of public sector payroll and suspension of some capital projects.

The fiscal consolidation measures being implemented are expected to be sustained in the medium-term but for COVID-19 which has made expected revenue mobilization gains no longer feasible. The

pandemic would significantly reduce revenue performance, weaken government expenditure rationalization efforts and increase central bank financing of the deficit. Domestic revenue is projected to drop from 14.3 percent of GDP in 2019, to 13.0 percent of GDP in 2020 and to average around 14.4 percent by 2023 on the back of lower income tax and customs duties. The fiscal deficit is estimated at 6.8 percent of GDP in 2020 but is expected to decline significantly to 2.7 percent of GDP by 2023.

**Table 11: Sierra Leone: Status of Primary Convergence (2015-2023)**

Primary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Inflation rate (end-period)	<10%	8.9	17.4	15.3	14.3	13.9	17.5	13.5	11.1	9.8
Fiscal deficit, on commitment basis (% of GDP)	≤3%	4.3	7.5	8.6	5.2	2.6	6.8	5.2	3.6	2.7
Central Bank financing of fiscal deficit (% of previous year's tax revenue)	≤10%	20.1	30.9	18.9	18.8	0.7	36.1	-0.1	-3.2	0.0
Gross external reserves (in Months of imports)	≥ 3 Months	4.6	5.5	4.5	4.2	3.2	4.2	4.1	3.9	3.9
<b>Number of criteria satisfied</b>		2	1	1	1	3	1	2	2	4

**Sources:** WAMI. \* Sierra Leonean Authorities/ IMF / Staff projections

### Central Bank Financing

Central bank financing stood at 20.1 percent of the previous year's tax revenue in 2015, and deteriorated further to 30.9 percent in 2016. This was on account of the devastating impact of the Ebola epidemic and the collapse in Iron Ore prices resulting in the tightening of the fiscal space and an increase in the financing gap of governments fiscal operations which was covered by the Central Bank. The twin shocks led to increased holding of Treasury securities by the Central Bank as government's borrowing increased. However, the ratio narrowed to 18.9 percent and 18.8 percent in 2017 and 2018 respectively. Consequently, the country could not meet the required threshold during the period.

Central bank financing of fiscal deficit stood at 0.7 percent of previous year's tax revenue in 2019. Since COVID-19 has thwarted government's revenue mobilization efforts and has weakened expenditure rationalization, central bank financing of the deficit will be missed in 2020. However, given the huge inflow of funds from development partners in the fight against this pandemic and the strong commitment of the BSL to adhere to the statutory limit of central bank financing of not more than 5.0 percent of previous year's tax revenue, the country is expected to satisfy this criterion in the medium term.

### Gross External Reserves

Gross external reserves in months of imports increased to 4.6 months as at end-December 2015 compared 3.6 months as at end December 2014 and further to 5.5 months of imports in 2016. The improvement was attributable to slow down in importation and improved reserve accumulation as donor inflows increased to fund Government's post-Ebola recovery programmes and capital projects. However, the reserves narrowed to 4.5 months and 4.2 months of import cover at end-December 2017 and 2018, respectively. The drop in reserves was mainly due to delay in donor inflows as well as the draw down on reserves by the BSL to smoothen volatility in the exchange rate. Gross external reserves could finance 3.2 months of imports in 2019.

The external sector is expected to be strained in the medium term, on the back of closed borders, constrained domestic movements and dampened external demand. Given the projected decline in exports earnings, dampened global activity and investor sentiments, remittances and FDI would be curtailed. However, gross international reserve is expected to remain above the threshold of three (3) months of imports. It is projected to average around 4.0 months of imports between 2020 and 2023.

External sector vulnerability in the wake of the coronavirus pandemic and volatility in global commodity prices are the risks to the outlook.

## Secondary Criteria

### *Public Debt- to - GDP Ratio*

Sierra Leone consistently attained the public debt -to - GDP ratio criterion from 2015 to 2019, anchored by the authorities' commitment to restrict non-concessional borrowing. However, the ratio increased to 54.3 percent in 2016 from 45.1 percent in 2015, due to increases in both domestic and external debt. Performance on this criterion was sustained from 2017 to 2019 as the ratio of public debt to GDP remained below the 70.0 percent threshold. The ratio however increased to 57.5 percent in 2019, from 56.4 percent in 2017, mainly due to increase in external debt stock.

### *Exchange Rate Variation*

For the period 2015 to 2019, the country mostly missed the criterion on exchange rate variation with the exchange rate depreciating by 21.6 in 2016 relative to a depreciation of 12.2 percent recorded in 2015. This was largely on account of reduced foreign exchange inflows including export receipts, especially iron ore, coupled with reduction in Ebola related inflows.

In 2018, the Leone depreciated by 10.2 percent, compared to 4.5 percent in 2017, on account of increased demand for foreign exchange to finance payments for rice importation and petroleum products as well as post-election uncertainties. The Leone depreciated further by 13.6 percent in 2019 due to demand for foreign exchange to finance imports.

**Table 12: Sierra Leone –Status of Secondary Convergence (2015 – 2023)**

Secondary Criteria	Target	2015	2016	2017	2018	2019	2020*	2021*	2022*	2023*
Public debt to GDP ratio	≤70%	45.1	54.3	56.4	57.4	57.5	55.0	57.1	56.0	62.1
Exchange rate variation**	±10%	12.2	21.6	4.5	10.2	13.6	2.8	11.6	9.4	9.1
<b>Number of criteria satisfied</b>		1	1	2	1	1	2	1	2	2

**Source:** Sierra Leone Authorities, WAMI staff projections\*

The Sierra Leone economy is recovering from subdued growth between 2016 and 2018 and grew by 5.1 percent in 2019. The recovery of the economy is underpinned by increased activities in the agriculture sector, higher production of rutile, increased construction activities, and expansion of the services sector. However, there are downside risks to growth, stemming from the recent COVID-19 pandemic, closure/suspension of operations by some iron-ore mining companies as well as escalation in trade tensions between China and the United States. Hence, the economy is expected to grow at an average of about 2.1 percent between 2020 and 2023 following a projected contraction of -3.1 per cent in 2020.

The prudent fiscal consolidation measures together with proactive monetary policy coordination could enable the economy meet most of the convergence criteria in the medium term. Sierra Leone satisfied three (fiscal deficit, central bank financing and gross external reserves) out of the four primary convergence criteria in 2019. The country's performance on the secondary criteria remained the same as in 2018, satisfying the public debt-to-GDP criterion while the criterion on exchange rate variation was missed. Overall, the country is expected to satisfy all the primary macroeconomic convergence criteria (single digit inflation, central bank financing, and gross external reserves) and both secondary criteria (exchange rate variation and public debt/GDP ratio) by 2023 on the proviso that the authorities:



- i. protect lives and livelihoods against COVID-19;
- ii. create the enabling environment to promote foreign direct investment in the mining sector;
- iii. sustain the fiscal consolidation efforts and strengthen public financial management;
- iv. diversify the export base through the development of non-traditional exports;
- v. reduce pressure on the Leone and dampen inflationary pressures by exploring the possibility of entering into bilateral SWAP arrangements with other Central Banks and some major trading partners.
- vi. access highly concessional (ideally grant) financing to avoid further pressure on debt.

Additionally, the impact of coronavirus outbreak on the economy is already visible. Given the evolving situation, it is difficult to predict the full extent and severity of the impact of the coronavirus pandemic. However, it has already led to unprecedented disruptions in global supply chains, sharp reduction in crude oil prices, lockdowns in many countries and travel restrictions. Quantifying the economic impact in Sierra Leone is complex, giving rise to significant uncertainty about the economic outlook and the associated downside risks. Such an abrupt rise in uncertainty can put both economic growth and financial stability at risk making the macroeconomic convergence criteria unattainable in the medium term. In the meantime, in order to limit the impact of the coronavirus on the stability of the Sierra Leone economy, it is recommended that the authorities undertake the following additional measures to boost liquidity:

- i. reduce the Required Reserve Requirement from 12 per cent to 10 per cent to provide more liquidity to banks as adequate liquidity will also be needed to offset financial stability risks;
- ii. put in a place a mechanism to minimize the likelihood of businesses going into insolvency due to lack of credit;
- iii. engage Mobile Network Operations (MNOs) and commercial banks to waive fees on mobile money transactions and other digital payment charges in order to limit the use of cash and bank branch visit; and
- iv. increase daily transaction and wallet size limits for mobile money transactions.

Clearly, wherever possible, safeguarding financial stability requires assertive and well-coordinated policy action by the authorities.

Performance in meeting the four primary macroeconomic convergence criteria on a sustained basis remained a daunting task for all the Member States. During the past three years (2017-2019), no individual Member State of the WAMZ has attained all the primary macroeconomic convergence criteria for three consecutive years i.e. 2017-2019. It was projected that at end-December 2019, Guinea was the only Member State that met all the four primary macroeconomic convergence criteria. The Gambia, Ghana, and Sierra Leone met three primary criteria each, Nigeria two and Liberia one. The inflation and fiscal deficit criteria were the most difficult to attain. Taking a Medium Term Perspective

(2021-2023), it is projected that The Gambia, Liberia and Sierra Leone would meet the four primary criteria by 2023. Ghana and Guinea would meet three criteria each, and Nigeria two.

#### **4.0 ARE WAMZ MEMBER STATES READY FOR A MONETARY UNION?**

In the WAMZ, achievement of the convergence criteria on a sustainable basis continues to pose serious challenge for Member States. The fiscal deficit (as a percentage of GDP) and inflation criteria remained the most challenging criteria for Member States. This could be traced to the prevalence of fiscal dominance, characterized by large budget deficits (due to inadequate revenues and/or unsustainable expenditures). Financing of the deficit through credit creation, hike in food and fuel prices as well as excessive depreciation of national currencies continued to exacerbate inflationary pressure in Member States.

According to the convergence deadline set at December 31, 2019, all Member States shall in a sustainable manner have complied with all primary criteria over the preceding three years (2017-2019). In the past three years (2017-2019), however, no individual Member State of the WAMZ had consistently attained all the primary convergence criteria. Over the reference period, The Gambia consistently satisfied 3 criteria, Ghana satisfied 2 in 2017 and 3 each in 2018 and 2019, Guinea attained 3 criteria in 2017, 2 in 2018 and all 4 in 2019. Liberia was only able to attain 1 criterion during the entire 3-year review period. Nigeria achieved 3 criteria in 2017 followed by 2 each in 2018 and 2019 while Sierra Leone attained 1 criterion each in 2017 and 2018 and 3 criteria in 2019.

The projections for end-December 2020 indicate that The Gambia and Ghana are likely to attain 3 criteria each, Guinea and Nigeria 2 criteria each while Liberia and Sierra Leone are likely to attain 1 criterion each, further bolstering the known history of Member States performance on the primary convergence scale.

Studies undertaken by the West African Monetary Institute (WAMI), and also the West African Monetary Agency (WAMA), to assess the level of integration in ECOWAS in general and WAMZ countries in particular seem to suggest that the WAMZ was not ready for a union. For instance, Egbuna et al (2018) developed an economic integration index to measure the intensity and pace of regional economic integration in the Zone. The study showed that the index witnessed increases during the period 2015 to 2017, depicting increased level of integration among the WAMZ Member States. However, it observed that the sub-region was not ready for a monetary union, and Member States may need to expand their intra-regional trade volumes overtime, intensify efforts aimed at meeting the macroeconomic convergence criteria on a sustained basis as well as ratifying all ECOWAS trade-related protocols to achieve a single monetary zone in the WAMZ. Even though Egbuna et al (2019) found evidence of real convergence in some countries in the WAMZ (Nigeria, Ghana and Sierra Leone), convergence among all the WAMZ countries was much slower relative to the West African Economic and Monetary Union (WAEMU) countries. It therefore suggested a gradualist approach to the regional integration process in ECOWAS such that countries that could not achieve convergence should strive to comply with the nominal convergence criteria on a sustained basis.

The Optimum Currency Area (OCA) theory recognized that the symmetry of business cycles between countries is one of the most important factors to be considered in assessing the suitability of Member States to adopt a single currency. However, WAMI (2020) found low degree of synchronization of business cycles among ECOWAS Member States, which suggests high cost of adopting the ECO, as asymmetric shocks would likely be transmitted across countries. The paper therefore urged Member States to consider the option of developing and implementing a comprehensive action plan to promote

real convergence, and ensuring compliance with the macroeconomic convergence criteria in order to facilitate the adoption of the ECO.

The above analysis largely indicates that even though the WAMZ countries in particular, and ECOWAS countries in general have made appreciable efforts to comply with the nominal convergence criteria and drive towards achieving real convergence, these efforts are not sufficient to get them into a monetary union.

## 5.0 CONCLUSION AND RECOMMENDATIONS

The gradual transition to regional economic integration by candidate countries requires that they undergo through a process of convergence of their economies, as lack of convergence may cause tensions that hold up integration, create expectations of unsustainable intra-regional fiscal transfers and complicate policies at the union level. Consequently, ECOWAS, which was established in 1975, adopted the ECOWAS Monetary Cooperation Programme (EMCP) in 1987 to facilitate the introduction of a single currency and adopt harmonised policy frameworks to attain macroeconomic convergence. Prescribed benchmarks were set and member countries were required to comply in order to address macroeconomic imbalances in their domestic economies.

To fast-track the EMCP, a two-track approach to monetary integration in West Africa was adopted by the Community, culminating in the establishment of the WAMZ. Despite several efforts by WAMZ member countries to satisfy the macroeconomic convergence criteria in line with the EMCP, the launch of the WAMZ was postponed several times due to the inability of these countries to comply with the benchmarks.

The Convergence phase of the Macroeconomic Convergence and Stability Pact requires member countries to comply with at least the primary criteria on a sustained basis for three consecutive years. However, no WAMZ member state has complied with all the primary criteria on a sustained basis during 2017 – 2019, posing serious threat to the actualisation of the WAMZ and the ECOWAS Single Currency Programme 2020. Guinea fulfilled all the primary criteria in 2019, while The Gambia, Ghana, and Sierra Leone met three primary criteria each, Nigeria met two while Liberia met one criterion at end-December 2019.

It is critical to achieve and consolidate macroeconomic convergence prior to the formation of the WAMZ monetary union. The viability and sustainability of a monetary union depends on macroeconomic convergence and close integration of the economies of Member States on the pillars of trade and financial integration, it is imperative to concretise these building blocks in achieving macroeconomic stability, accelerating growth and enhancing the economic well-being of the citizens of the Zone.

In view of the several postponements of the launch of the WAMZ monetary union, mainly due to non-achievement of the convergence criteria, enhanced national ownership could be considered for inclusion within the WAMZ multilateral surveillance framework for a successful march towards monetary union. To this end, countries should be required to develop national convergence programmes on the WAMZ prescribed and agreed convergence criteria within the stipulated time frame of the programme, to be approved by the Parliament of each Member State and be published on the WAMI website and disseminated to each Member State.

The ability of the Member States in achieving and sustaining macroeconomic convergence differs and they may be unable to reach the convergence criteria within the same time period dictated by the agreed

target date for the establishment of the monetary union. Countries should therefore be allowed to determine their own convergence time path to comply the criteria for accession to a monetary union. WAMI would therefore set a time period within which at least three Member States including Ghana and Nigeria could attain the criteria and set that as the cut-off date for the launch of the monetary union with a three-year grace period to consolidate the achievements and ensure sustenance.

Going forward, it may be prudent for the WAMZ to continue on the structured approach it has followed until now to ensure the attainment of macroeconomic convergence within the Zone. This will entail continuing with the harmonisation of policies in areas of macroeconomic management, monetary and financial management, trade as well as statistics across the Zone. The strong positioning of economies of the Member States of the WAMZ will provide the anchor for the creation of a complete monetary union in West Africa and also for a viable ECOWAS Single Currency in future.

Meeting the fiscal deficit criterion on a sustained basis has been the most difficult task for WAMZ countries since the inception of the convergence process. Consequently, there would be need for countries to come up with an act of parliament stipulating the maximum fiscal deficit as a percentage of GDP in any given year. Nigeria has implemented a Fiscal Responsibility Act (2007) which stipulate that a fiscal deficit should not exceed 3 percent of GDP in a financial year, and it has complied with the Act as the country's deficit has been less than 3 percent of GDP in recent years. The Ghana's Fiscal Responsibility Act (2018) set the deficit at 5 percent of GDP for a fiscal year, which is higher than the stipulated 3 percent in the convergence criteria, and could be amended to conform to the 3 percent threshold. The other four countries could amend their Public Finance Management Acts to enable them set limits for the fiscal deficit in line with the convergence requirements.

There would also be need to implement reforms aimed at improving domestic revenue mobilization and administration to reduce inefficiencies in revenue collection while ensuring fiscal prudence in government spending. The ability to collect taxes is central to countries' capacity to achieve the desired fiscal outcome. However, countries have low tax revenue to GDP ratio, averaging 11.4 percent during the period 2014 – 2018 (it ranges between 1.6 percent in Nigeria to 19.3 percent in Liberia on average between 2014 and 2018), compared to 15 percent of GDP in developing economies (Akitoby, 2018) and a minimum of 12.75 percent required to achieve sustainable growth (Gaspar *et al*, 2016). While Liberia was able to undertake tax reforms and surpass these thresholds and have met its fiscal deficit criterion consistently since 2014, the other five countries need to make extra efforts to enhance their tax revenues in line with global benchmarks. These countries could initiate tax reforms to simplify the tax system and improve tax administration; curb exemptions and broaden the tax base; utilize information management system to automate the tax payment processes; and enhance the audit and verification systems.

Achieving the single digit inflation criterion has also proved challenging for Member countries. There would, thus, be need for countries to improve their domestic productive capacity to satisfy domestic demand. The WAMZ central banks could develop policies to, not only address price stability, but also pursue developmental functions. This would enable them provide development financing aimed at improving critical sectors of the economy including agriculture, manufacturing, small and medium enterprises (SMEs), infrastructure, etc. The Central Bank of Nigeria (CBN) has undertaken developmental functions in Nigeria since 1962, and other WAMZ central banks could learn from this. There would also be need for WAMZ countries to deepen their financial markets to enhance financial intermediation and improve monetary policy transmission. Other policy actions that could encourage the achievement of nominal convergence in the WAMZ include: entering into currency SWAP arrangements among Member States to assist them in conserving scarce foreign reserves; and facilitating

the development of active debt markets and the introduction of adequate debt instruments to reduce reliance on central banks in financing government budget deficits.

The recent outbreak of COVID-19 pandemic would likely set aback the successes chalked so far by the Member States towards achieving and sustaining macroeconomic convergence hence the need to re-establish macroeconomic stability before monetary integration. In this regard, Member States are urged to prudently manage the COVID-19 Funds, in order to return the economies to normalcy.

## REFERENCES

- Akitoby, B. (2018). Raising Revenue. *Finance and Development*, vol. 55 no. 1, 18-21.
- Egbuna, E. N., Jarju, I., Bawa, S., Diallo, I., Mendy, I., Haffner, O., & Adams, K. (2018). A Composite Index of Economic Integration in the West African Monetary Zone (WAMZ). *WAMI Occasional Paper Series Number 15*, West African Monetary Institute.
- Egbuna, E. N., Jarju, I., Bawa, S., Diallo, I., Odeniran, O. S., Mendy, I., & Nyarko, E. (2019). Optimum Currency Area Index for the Economic Community of West African States (ECOWAS). *WAMI Occasional Paper Series Number 16*, West African Monetary Institute.
- Gaspar, V., Jaramillo, L., & Wingender, P. (2016). Tax Capacity and Growth: Is there a Tipping Point? *IMF Working Paper WP/16/234*.
- WAMA. (2019). Creation of the ECOWAS Single Currency in 2020: Assessment of Progress and Gaps. *Paper Presented at the WAMZ Statutory Meetings in Conakry, Guinea, August 2019*.
- WAMI. (2020). Policy Harmonisation and Business Cycle Synchronisation in West Africa. *Policy Paper presented at the WAMZ Statutory Meetings in Freetown, Sierra Leone, February 2020*.